

INFORMATION PAPER

CFO Issues-FY2000 Audit

Issue: Correct Charging of Project Costs to Construction in Progress (CIP) or Expense Accounts.

References: ER 415-1-16 (Chap 5, para 5-2), Construction Fiscal Management, Revised Draft for Implementation, 16 Sep 99.

ER 37-2-10, Accounting and Reporting Civil Works Activities.

ER 37-345-10, Accounting and Reporting Military Activities.

Description: USACE districts are not correctly classifying asset work items. They are classifying expensed items as capitalized items in the CIP account. Items capitalized in error include studies and dredging. In addition, districts are maintaining credit balances in the CIP account. Credit balances occurred because districts:

- Transferred larger amounts out of the CIP account than the authorized or cumulative amount.
- Put a collection from a sponsor in the CIP account.
- Collected revenues but didn't credit the correct assets (already in service).

HQUSACE guidance, "Standard Operating Procedures for Transferring Costs from Construction-In-Progress Accounts," dated 30 September 1998, clarifies that all costs associated with the creation of an asset become part of the asset's value and will be capitalized. Costs incurred that do not contribute to the creation of an asset are an expense. Examples of capitalized items are:

- Personal property over \$25,000.
- Construction costs.
- Land payments.
- Engineering and design costs, relative to construction.
- Supervision and administration costs, relative to construction.
- Materials.

Examples of expensed items are:

- Reconnaissance and feasibility studies.
- Excavation and dredging of channels.
- Engineering, design, supervision and administration related to expense type items.

Proper recognition and classification of work items begins when the district establishes the project hierarchy. In order for costs to be accurately captured, managers must correctly identify parent work items, asset work items, or expensed work items.

INFORMATION PAPER: CFO ISSUES—FY2000 AUDIT-- Correct Charging of Project Costs to Construction in Progress (CIP) or Expense Accounts.

Potential Problem: Districts are including costs in the CIP account that should have been expensed during the period incurred. As a result, assets (CIP is an asset account) are overstated and the expenses for the period are understated. Additionally, the erroneous costs included in the CIP account weren't all incurred during the current FY. Therefore, expenses in previous years were understated, and the expenses weren't matched with the revenues from the proper period.

HQUSACE ACTIONS: Policy and guidance have been issued to define the criteria for categorizing costs as either part of the asset cost or expense (references above.)

Field Actions: Resource Management Offices and Project Managers should ensure that current and future costs are categorized appropriately in accordance with published guidance. Additionally, RM and PM personnel should jointly review existing CIP accounts to identify project work items erroneously placed in the account and to ensure that these costs are properly transferred to the appropriate expense accounts. To identify all costs charged to the CIP account, run the detailed cost ledger report in the Corps Of Engineers Financial Management System (CEFMS):

- By project work item.
- Under cost type "CIP".
- Detail level.

This report will identify all costs charged to the CIP account by work item.

After identifying the costs, coordinate with the USACE Finance Center (UFC) to ensure that erroneously capitalized costs are properly transferred to the appropriate expense accounts.

Self-Assessment Rating Criteria:

Green (Compliant): Current costs are reviewed and posted as either asset costs (Construction in Progress account) or expensed, IAW with HQUSACE guidance. Existing amounts recorded in CIP accounts have been reviewed for accuracy and corrective actions taken, as appropriate.

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